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November 12, 1996

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Federal Communications Commission
Office of Secretary

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: Ex Parte Presentation -- CC Docket No. 96-45

Dear Mr. Caton:

Today I provided the attached documents to the following individuals: John Nakahata; Daniel Gonzalez; Larry Atlas; A. Richard Metzger; and John Morabito.

Two copies of this Notice, along with the attached documents, are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

Attachments

cc: John Nakahata
Daniel Gonzalez
Larry Atlas
A. Richard Metzger
John Morabito

AT&T

R. Gerard Salemme
Vice President - Government Affairs

Suite 1000
1120 20th Street, N.W.
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November 12, 1996

Mr. John Morabito
FCC
8th Floor
2100 M Street, N.W.
Washington, D.C. 20554

Dear ~~Mr. Morabito~~: John

As you are no doubt aware, the California Public Utilities Commission released the text of its final order on the universal service last week. For your information, I have enclosed an executive summary of the order which we have prepared as well as the full text of the decision.

AT&T supports the CPUC's decision for several reasons. The order includes appropriate limits on the distribution of the universal service fund, and endorses a cost-based model to establish universal service cost benchmarks. The funding mechanism is based on revenues from all end-user services, and the customer surcharge must appear as a separate line on the bill. Most importantly, the CPUC's decision will eliminate the windfall local exchange carriers have received to subsidize basic local service.

I hope the CPUC's approach will be useful as the FCC moves forward on its own universal service reform proceeding. I look forward to any further opportunity to discuss this issue with you; please call me anytime.

Sincerely,

Gerry Salemme

November 7, 1996

CALIFORNIA PUBLIC UTILITIES COMMISSION ISSUES FINAL DECISION ON UNIVERSAL SERVICE FUNDING

EXECUTIVE SUMMARY

On October 25, 1996, the California Public Utilities Commission (CPUC) voted three to one to approve the Administrative Law Judge's (ALJ) proposed decision in connection with the Universal Service Fund (USF) proceeding R.95-01-020/I.95-01-021. The text of the final decision was made available on November 5, 1996.

This final decision provides for a moderately sized Universal Service Fund of $351M, establishes a competitively neutral structure utilizing an All End User Surcharge (AEUS), and disposes of any potential LEC windfall. Additionally, the decision establishes a $50M annual budget to support the California Teleconnect Fund (CTF). Service providers will be allowed to draw from the CTF to the extent that they provide discounts of up to 50% to schools, libraries, health care and community-based organizations. Together these two components of the Commission's Universal Service program will require approximately $402M in annual funding. The Commission has designated that both of these new subsidy mechanisms will be funded via line item surcharges on end-user bills.

FUND SIZE AND ESTABLISHMENT OF STATEWIDE AVERAGE COST BENCHMARK:

Of most concern to AT&T was the question of how much subsidy funding the Commission would allow. AT&T is relieved that the final decision limits to $351M that portion of the fund earmarked to subsidize basic exchange service in the high cost areas where Pacific Bell, GTE California, Roseville Telephone, Citizens Telecommunications, and Contel of California currently serve as carriers of last resort (COLR). The Commission has limited the application of its new universal service subsidy fund, designated California High Cost Fund B (CHCF-B), to the service areas of these five large and mid-sized LECs as it is in these service areas that local exchange competition is likely to develop first. Competitive Local Exchange Carriers (CLCs) who provide service in these high cost areas as COLR will be eligible for subsidy as well. The remaining 17 small independent companies will continue to draw subsidy from the existing California High Cost Fund (CHCF-A) pending future Commission action.

The decision endorses the Cost Proxy Model (CPM) first proposed by Pacific Bell, although not without extensive modifications which have dramatically lowered the cost estimate produced. The $351M estimate resulting after all Commission approved adjustments are incorporated contrasts sharply with the $1.7B statewide subsidy requirement identified by Pacific Bell during this proceeding and accords with estimates proposed by AT&T. The Commission's decision also establishes $20.30 as the statewide benchmark cost per household to provide universal service; earlier AT&T estimates set the benchmark closer to $16 while original Pacific Bell estimates set the average cost at approximately $26.

FUNDING AND BILLING IMPACTS OF THE ALL END-USER SURCHARGE:

The Commission's decision will fund revenues for both the CHCF-B high cost subsidy mechanism and the CTF by way of an AEUS. The Commission has ordered that each provider of end-user services introduce two new elements in end-user customer billings. A surcharge of 2.87% will be applied monthly in order to fund the CHCF-B portion of the USF program. The Commission will allow this line item calculation to be consolidated with the existing CHCF-A subsidy line item which already appears on end-user bills. Therefore, it **will not** require an additional line on customer bills. A separate line item surcharge of .41% will be applied to provide revenues for the CTF. The Commission has ordered that the CTF be disclosed explicitly and so it **will require** one additional line on customer bills.

All end-user services will bear both of these new surcharges with the exception of the following:

- Basic local exchange service subscribers who qualify for service under the state's Universal Lifeline Telephone Service (ULTS) program
- Coin-sent paid calling
- Debit card messages
- One-way radio paging
- Usage charges to Customer Owned Pay Telephones (COPT)
- Customers receiving service under contracts executed on or before September 15, 1994
- Directory advertising.

The decision requires that the new CHCF-B and CTF surcharges be reflected in bill cycles commencing February 1, 1997. Additionally, LECs and CLCs are required to provide a bill insert to all affected end-users explaining the dual program. The text of this bill insert will be developed via a Commission workshop that is expected to convene by November 14, 1996.

ELIMINATION OF LEC WINDFALL:

The Commission decision recognizes that LEC rates have historically included an implicit subsidy to fund basic local exchange service. The CHCF-B serves to replace this implicit subsidy with an explicit source. With the inception of the CHCF-B, a failure to adjust LEC rates would create a LEC windfall. In order to provide an interim solution to the windfall problem, the decision requires the five incumbent LECs to make an across-the-board, even-percentage reduction in rates for all services except basic residential services and rates set by contract executed prior to September 15, 1994.

The Commission also recognizes that a true-up mechanism for this windfall revenue reduction may be necessary. Therefore, the decision calls upon each of the five LECs to establish a memorandum account to track the CHCF-B subsidy funds received. The Commission anticipates that this revenue accounting would be useful in the event that any of the five LECs applies to permanently rebalance service specific rates.

The amount of USF funding for which each carrier qualifies will also be offset by each LEC's total collected EUCL and federal Carrier Common Line Charge, as well as a portion of Interstate USF funds.

UNIVERSAL LIFELINE TELEPHONE SERVICE:

The decision leaves intact the existing Universal Lifeline Telephone Service program. The ULTS program provides a subsidy to individual households to assist them in affording basic telephone service. This program, established previously, also requires a line-item surcharge on customer bills in the amount of 3.2%. The decision specifies that qualifying CLCs will be able to draw reimbursement for subsidies offered to their basic service customers under the existing ULTS program as LECs do currently.

ADDITIONAL ISSUES:

The decision also retains the original ALJ proposal that both LECs and CLCs publish a matrix that clearly communicates the basic exchange services each offers as well as the array of rates for such services.

Lastly, the decision calls for a shifting of the existing California High Cost Fund (CHCF-A) administration from Pacific Bell to the Commission staff within six months of the decision date.